



San Diego City Attorney MICHAEL J. AGUIRRE

NEWS RELEASE

FOR IMMEDIATE RELEASE: October 27, 2008

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E-MAIL REVEALS GREATER PENSION LOSS THAN PREVIOUSLY REPORTED BY CITY OFFICIALS; CITY'S OUTSIDE BOND COUNSEL URGES DISCLOSURE

San Diego, CA—An e-mail from a City employee retiree released today by City Attorney Michael Aguirre reveals that managers of the City's pension system were aware that it suffered an additional \$300 million in stock losses resulting in a total asset value of \$3.92 billion as of October 14, 2008. The information is critical because three days later, City officials certified the FY 2007 Comprehensive Annual Financial Report (CAFR), using an outdated pension asset value of \$4.32 billion.

Under questioning from City Attorney Michael Aguirre at today's City Council Audit Committee meeting, John McNally, the City's outside bond disclosure counsel, said it "may be troublesome" if there is known information that the City's employees' pension system is valued less than what had been disclosed on the October 17 financial disclosure statements prepared by City officials.

The CAFR is a core document that informs investors about the financial health of a municipality and its ability to repay bondholders. The matter is timely because the City Council is poised today to consider the issuance of new municipal bonds to related to the City's water delivery system.

"I agree with Mr. McNally that we have an obligation to correct the CAFR because the very issue of improper disclosure is what got us into trouble with the U.S. Securities and Exchange Commission," said City Attorney Aguirre.

At issue are huge losses from October 1-14, 2008 incurred by pension systems nationwide, including the San Diego City Employees' Retirement System (SDCERS) due to the financial crisis on Wall Street and the effect it has had on the ratio of pension assets to pension liabilities. Typically referred to as the "funded ratio", the figure reflects the fiscal stability of a pension system.

If the total asset value of \$3.92 billion is accurate, the funded ratio of the City's employees' system would be at the lowest level ever, between 50 and 60%.

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“I also asked the Audit Committee today to request from Mayor Jerry Sanders the most up-to-date information on the pension system and an action plan on how to deal with the losses, which will fall on the backs of taxpayers,” said Aguirre.

According to the e-mail, the information was disclosed on October 14, 2008 by an investment manager from SDCER’s at a meeting of the City of San Diego Retired Employees Association:

“At the City of San Diego Retired Employees Association, on the morning of October 14th, our President reported SDCERS was down \$859 million, and the fund was valued, unaudited at \$3.92 billion. I don’t know how the market closed that day.”

Attorney John McNally of Hawkins Delafield & Wood LLP has been advising the City of San Diego in preparing its Fiscal Year 2007 Comprehensive Annual Financial Report (CAFR).

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